Mr Watkins we have had report
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# GUNNAR MINING
LIMITED

## 34TH
## ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31

## 1967

GUNNAR MINING
LIMITED
Suite 1707, 80 Richmond St. West
Toronto 1, Ontario

# BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

ANNUAL MEETING
June 17, 1968, 11.00 A.M. (Toronto Time)
Library, Royal York Hotel,
Toronto, Ontario

## BOARD OF DIRECTORS

John N. Botsford, Toronto, Ont.
Harold McNamara, Toronto, Ont.
Joseph S. LaBine, Toronto, Ont.
William McNamara, Toronto, Ont.
T. P. O'Connor, Toronto, Ont.

## EXECUTIVE OFFICERS

### GUNNAR MINING LIMITED

T. P. O'Connor, *President*
J. N. Botsford, *Vice-President and General Manager*
J. S. McFadden, *Secretary*
A. H. Cross, *Treasurer and Assistant Secretary*

### McNAMARA CORPORATION LIMITED

Harold McNamara, *Chairman of the Board*
A. D. McKee, *President and Chief Executive Officer*
G. B. Morris, *Vice-President — Construction*
F. B. Campbell, *Vice-President — Administration and Finance*
J. N. Chalmers, *Secretary*
R. MacTavish, *Comptroller*

# DIRECTORS' REPORT

21st May, 1968.

To the Shareholders
GUNNAR MINING LIMITED:

The Board of Directors presents herewith the Annual Report of your Company and its subsidiaries, including the Consolidated Financial Statements for the year ended 31st December, 1967, and the Report of your Auditors.

The financial results for the year 1967 show a net profit of $144,000. This is not a satisfactory rate of return, but following three successive years of substantial losses, it is encouraging. The Mining, Supply, Marine and Newfoundland Divisions operated at profitable levels. The Engineering Division showed a loss and the balance of the construction operations suffered from lack of volume. Consolidated gross revenue, including our share from joint ventures, decreased from $105,635,000 to $67,270,000. The cost to complete the major loss contracts had an adverse effect on our bank loans which amount to $27,726,000 at the year end. There is no longer any provision required for estimated future losses on any of the current projects. Satisfactory relations continue with our Banking Consortium, the individual Members of which rendered us major assistance during the difficult period we have experienced. The consortium agreement with banks and the bonding company now applies until the end of 1969.

## CONSTRUCTION

### *Heavy Construction, Roads and Buildings*

The volume of work on loss contracts dropped sharply to $12,000,000 from $50,000,000 in 1966 through successive completions during 1967. Work completed on contracts entered into in 1966 and 1967 remained at 1966 levels of approximately $7,000,000. All this work showed an operating profit and efforts are being concentrated on bidding major jobs along with partners on a joint venture basis. The largest project acquired during the year was the Kettle Rapids Power Dam in the Nelson River for the Manitoba Hydro Electric Board. McNamara Corporation is the sponsor of this joint venture in which it has a 28% interest and in addition is paid a management fee. Construction is on schedule and, although audited statements of the joint venture at year end show a profit, the accompanying Consolidated Financial Statement of the Company does not reflect this as we chose the conservative policy of deferring the recording of profit until the project is further developed.

### *Newfoundland, Nova Scotia and Marine*

Volume of work continued at the same levels as in 1966 and satisfactory profits were earned. Operations of the Nova Scotia company were terminated during the year and any future work in Nova Scotia will be handled by our Newfoundland division.

Prospects for 1968 operations indicate some curtailment because of reduction in both Federal and Provincial budgets. The equipment of both divisions has undergone extensive overhauling.

An analysis of the depreciation policy on marine equipment showed that rates used in prior years had been excessive. The policy was changed and the accounts adjusted so as to write off the cost of equipment over its estimated useful life. This resulted in reversal of previously recorded depreciation by a credit to deficit of $4,075,000.

*Supply and Engineering*

The cessation of operations by B. D. Bohna and Company Limited resulted in a reduction of billings by the engineering group. Both Federal Equipment Companies and Concrete Products Limited of the supply companies division showed increases in volume of work. Total sales amounted to $24,000,000 and profits were maintained at satisfactory levels.

## MINING AND EXPLORATION

The subsidiary company, Gunnex Limited, continued mineral exploration in 1967 in many areas in Canada, the Southwest United States and on a reduced scale in Europe. Net exploration expenses totalled $323,140. Partial reimbursement of exploration expenses was received from provincial Assistance Programs. A copper deposit, owned by the Icon-Sullivan Joint Venture in which Gunnex holds a 21.4% interest, was brought into production in May and, by the end of 1967, had produced 7,000,000 pounds of copper. Development of the silver property owned by Noradco Mines Ltd., in which Gunnex presently holds a controlling interest, will be renewed in 1968.

*British Columbia*

Exploration by other interests was completed on the 76,000 acres held under option from Canadian Pacific Oil and Gas Limited on Vancouver Island. This work included additional diamond drilling of the copper zones on Mount Spencer. New work may be attempted in 1968.

Prospecting and geochemical surveying for copper and molybdenum was started in an area in Southern British Columbia with interesting results. Further work will be undertaken to define the areas of interest.

There was no development work in 1967 on the silver property held by Noradco Mines Ltd. in the Stewart area. Late in 1967 negotiations were commenced with Shield Minerals Corp. of New York City for the formation of the "Noradco-Shield Joint Venture" whereby Shield agreed to provide $300,000 to enable further exploration and development of the property and preliminary production from it. These negotiations were concluded in March, 1968, and approved by the Noradco shareholders on 5th April, 1968. As a result Shield was granted a 26% interest in the Venture and an option to acquire an additional 25% interest therein from Noradco for an additional $600,000. Development this year will involve installation of a hoist for the tramway, lateral and vertical development work and stope preparation. Shipping of a hand-cobbed product should commence after mid-summer. Exploratory diamond drilling from an underground heading is required to test the downward extension of the vein system below the lower adit. Gunnex presently retains 52% of the issued shares of Noradco Mines Ltd.

*Northwest Territories*

An aerial survey for uranium was conducted by Shield Resources Limited in an area northwest of Yellowknife. This outlined a number of anomalies, some of which gave values in both uranium and molybdenum. Diamond drilling is scheduled to test these anomalies in 1968, and Gunnex has agreed to provide limited additional financing for this purpose in return for an increased share position.

*Saskatchewan*

Considerable emphasis was placed on uranium exploration during the year. Gunnex participated equally with Gulch Mines Limited in a twenty hole drill test of the Black Bay fault covered by Gulch mineral rights over a length of six miles. The results of this program are still being reviewed. An additional agreement with Gulch Mines and Paris Investments Ltd. will now permit an extension of this exploration work to a large adjoining claim block which is controlled by the latter company.

An aerial radiometric survey was conducted over three areas totalling 2,500 square miles in the northern part of the province. A large number of anomalies were located and many of these were given a cursory examination on the ground before freeze-up. Much additional prospecting, trenching and sampling is required to complete assessment of the more significant anomalies.

A two-man party with an aircraft carried out scouting and assessment of a large number of mineral prospects within the province. As a result, three claim blocks covering radioactive zones and one claim block covering base metal prospects were acquired by option and staking. Trenching, mapping and sampling were started on three of these blocks.

*Quebec*

Gunnex holds a 21.4% interest in the Icon-Sullivan Joint Venture as a result of its continuous 25% participation in the Icon Syndicate. Production from the Joint Venture copper deposit, 40 miles northeast of Chibougamau, commenced 24th May and by year end there had been 108,678 dry tons of ore milled with an average grade of 3.44% copper for an average recovery of 93.19%. The treatment rate is now 600 tons per day with recovery at 96% and the concentrate with an average 25% copper content is sold to Noranda Mines Limited. This property was placed in production at total cost of just over $1,000,000. Almost all of this expenditure has now been reimbursed to the Joint Venture.

The 1967 Icon Syndicate exploration program included completion of exploration of a number of airborne electromagnetic anomalies located in two areas flown the previous year. Work was also carried out on two optioned claim groups. Two groups staked for uranium and base metal potential will be explored in 1968. Prospecting and geochemical sampling were completed in two areas of copper and molybdenum-bearing float. A complete exploration program for 1968 has been approved and Gunnex will continue its participation.

In partnership with Hanson Mines Limited, a geochemical program was completed in Gaspe in an effort to locate the source of high grade copper-bearing float. No anomalies were found. Late in the year this joint venture acquired a group of claims in the Johan Beetz area where new finds of extensive low grade copper mineralization had been made by other interests. This property will be tested in 1968.

*United States*

Gunnex continued a program of scouting and property evaluation in the Southwest United States. Of numerous prospects examined, geochemical and geophysical tests were applied to eighteen, of which one was optioned. Subsequent exploration failed to locate a significant drill target. Gunnex holds two claim groups in Arizona covering a copper-bearing breccia pipe and gold-bearing shear zones respectively on which exploration will be carried out in 1968.

*Europe*

Our activities in Western Europe were confined to participation in Serpa Mines Limited and Fuente Mines Limited by exercising option rights on treasury stock. Both companies were formed to carry out exploration on base metal prospects acquired from the Mining Explorations (International) syndicate. At the year end, Serpa was conducting ground surveys and diamond drilling in Portugal. Fuente drilled a promising silver-lead deposit in Spain with disappointing results. Gunnex retains a 3% interest in certain other properties held by the syndicate.

## DIRECTORS

You will see from the Information Circular, which accompanies this Report, that Messrs. A. Douglas McKee and Ernest J. Spence will be nominated as directors and the proxies received by management will be voted for their election as well as the election of the five present directors. As you know, Mr. McKee is President of McNamara Corporation Limited and Mr. Spence, a Financial Consultant, has recently completed a special assignment on our behalf relating to the financial structure of our Company.

## INCENTIVE STOCK OPTION PLAN

The Company was committed to grant to Mr. A. Douglas McKee an option on two additional blocks of 25,000 shares each of the Company under the Incentive Stock Option Plan. The by-law creating the Plan prohibited the granting of an option to a person who is a director of the Company. Consequently your directors fulfilled the commitment to Mr. McKee

at a meeting held on 17th May 1968 at a time when he was not a director of the Company and granted him an option to purchase 50,000 shares of the Company at a price per share equal to the closing bid price of the shares of the Company on the Toronto Stock Exchange on 17th May, namely $1.91.

None of the options previously granted pursuant to the Incentive Stock Option Plan has been exercised.

## OUTLOOK

The modest profit earned in 1967 and the decision of our banks and bonding company to again extend the Consortium Agreement have been encouraging to your directors. For the current year we have a reasonable expectation that profits will continue to be generated from the Newfoundland, Marine and Supply divisions. The Kettle Rapids Project will be sufficiently advanced to enable us to record the result of the work which it is calculated will be profitable. There is still considerable potential income through surplus equipment sales and from the proceeds of certain major claims. Tax losses are available to enable us to retain foreseeable earnings in the next few years. However, additional new construction work for completion in 1968 is required.

Mining profits will continue to be received from the Icon-Sullivan Joint Venture in Quebec and some appreciation should result from development and preliminary production from the Noradco-Shield Joint Venture in British Columbia.

An exploration program by Gunnex Limited on a scale comparable to former years, in which Canadian Pacific Oil and Gas Limited is participating, will continue throughout the year.

On behalf of the Board,

T. P. O'CONNOR,

President.

## ASSETS

| | | 1967 | 1966 |
|---|---|---|---|
| Current | | | |
| Accounts and notes receivable, including $3,025,102 retained by customers in accordance with contract provisions | | $13,752,000 | $19,669,000 |
| Income taxes recoverable | | 1,437,000 | 1,420,000 |
| Special refundable tax | | 123,000 | — |
| Inventories for resale at the lower of cost and net realizable value | | 8,484,000 | 10,016,000 |
| Construction equipment for resale | | 2,989,000 | 2,180,000 |
| Investment in joint ventures | | 9,303,000 | 8,441,000 |
| Contracts in progress, at the lower of cost and net realizable value, less progress billings | | 1,363,000 | 1,048,000 |
| | | 37,451,000 | 42,774,000 |
| Sundry investments, at cost less amortization | | 1,584,000 | 1,633,000 |
| Property, plant and equipment, at cost | $19,191,000 | | |
| Less accumulated depreciation | 10,236,000 | | |
| | | 8,955,000 | 5,118,000 |
| | | $47,990,000 | $49,525,000 |

On behalf of the Board

T. P. O'CONNOR, Director.

J. N. BOTSFORD, Director.

The attached notes are an integr

# *Consolidated Balance Sheet* AS AT DECEMBER 31, 1967

(with comparative figures for 1966)

## LIABILITIES

| | | 1967 | 1966 |
|---|---|---|---|
| CURRENT | | | |
| Bank indebtedness, secured | | $27,726,000 | $23,336,000 |
| Accounts, notes payable and accrued charges, including $1,121,000 retained from sub-contractors in accordance with contract provisions | | 9,132,000 | 16,810,000 |
| Sundry taxes payable | | 135,000 | 209,000 |
| Provision for estimated future losses | | — | 2,325,000 |
| | | 36,993,000 | 42,680,000 |
| Mortgages payable, including approximately $314,000 due within one year | | 877,000 | 939,000 |
| **SHAREHOLDERS' EQUITY** | | | |
| CAPITAL STOCK | | | |
| Authorized | | | |
| 5,000,000 shares of $1 each par value | | | |
| Issued and fully paid | | | |
| 4,341,649 shares | $ 4,342,000 | | |
| Add premium on shares, net | 8,113,000 | | |
| | 12,455,000 | | |
| Deficit, as attached | 2,335,000 | | |
| | | 10,120,000 | 5,906,000 |
| | | $47,990,000 | $49,525,000 |

rt of these financial statements.

## CONSOLIDATED STATEMENT OF INCOME

### FOR THE YEAR ENDED DECEMBER 31, 1967

(with comparative figures for 1966)

| | 1967 | 1966 |
|---|---|---|
| Gross revenue, including $11,384,000 as share of joint venture revenue (1966 — $18,555,000) | $67,270,000 | $105,635,000 |
| Profit (loss) from operations before undernoted charges | $ 3,001,000 | ($ 2,108,000) |
| Financial expense | 1,892,000 | 1,614,000 |
| Depreciation | 965,000 | 990,000 |
| | 2,857,000 | 2,604,000 |
| Profit (loss) on operations | 144,000 | (4,712,000) |
| Income taxes recoverable | — | 848,000 |
| Net profit (loss) for year | $ 144,000 | ($ 3,864,000) |

## CONSOLIDATED STATEMENT OF DEFICIT

### FOR THE YEAR ENDED DECEMBER 31, 1967

(with comparative figures for 1966)

| | 1967 | 1966 |
|---|---|---|
| Deficit January 1 | $6,549,000 | $2,491,000 |
| Loss on sale of subsidiaries — net | 5,000 | 37,000 |
| Excess cost of investments in subsidiaries over book value of net assets acquired | — | 157,000 |
| | 6,554,000 | 2,685,000 |
| Prior years' depreciation adjustment | 4,075,000 | — |
| Net income (loss) for the year | 144,000 | (3,864,000) |
| Deficit December 31 | $2,335,000 | $6,549,000 |

The attached notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL

### FOR THE YEAR ENDED DECEMBER 31, 1967

(with comparative figures for 1966)

| | 1967 | 1966 |
|---|---|---|
| **Source of working capital** | | |
| From operations | | |
| Net profit (loss) | $ 144,000 | ($3,864,000) |
| Expenses which did not require the outlay of funds | | |
| Depreciation | 965,000 | 990,000 |
| Sundry | 72,000 | 1,000 |
| | 1,181,000 | (2,873,000) |
| Proceeds on sale of fixed assets less gain on sale $18,000 (1966 — $59,000) | 222,000 | 174,000 |
| Assets previously classified as non-current | | |
| Construction equipment for resale | 153,000 | 2,900,000 |
| Investment in joint venture | — | 851,000 |
| Inventory of pipe | — | 803,000 |
| | 375,000 | 4,728,000 |
| | 1,556,000 | 1,855,000 |
| **Application of working capital** | | |
| Purchase of fixed assets | 1,016,000 | 1,099,000 |
| Purchase of minority interest | — | 450,000 |
| Purchase of mining interests | 43,000 | 23,000 |
| Payments on mortgage principal | 62,000 | 63,000 |
| Sundry | 71,000 | 164,000 |
| | 1,192,000 | 1,799,000 |
| Increase in working capital | 364,000 | 56,000 |
| Working capital, January 1 | 94,000 | 38,000 |
| Working capital, December 31 | $ 458,000 | $ 94,000 |

The attached notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS
### DECEMBER 31, 1967

1. The bank indebtedness is secured by charges on assets of the Company and all its wholly-owned operating subsidiaries.

2. It is the policy of the Company not to reflect claims for extra work in the financial statements until the compensation has been awarded.

3. The basis of recording depreciation on marine equipment was changed retroactively as at January 1, 1967 from the diminishing balance method to a straight line basis, using rates designed to write off the cost of the equipment over its estimated useful life. This change resulted in a reversal of previously recorded depreciation by a credit to deficit of $4,075,000.

   As a further result of this change in policy, the charge against income for the year is $117,000 more than would have been the case under the previous depreciation policy.

4. Construction equipment for resale is valued at cost less accumulated depreciation to December 31 of the year preceding its transfer to this inventory account. This valuation is less than estimated net realizable values.

5. The investment in joint ventures will be liquidated in the normal course of contract completion. Although completion may require more than one year, such investments are included in current assets.

   Settlement of part of one advance is in arrears, but in the opinion of counsel is fully collectible.

6. The Company has reserved 300,000 shares of unissued capital stock pursuant to an Employees' Incentive Stock Option Plan. Options were outstanding at March 4, 1968 for 222,500 shares granted at various dates in 1965, 1966, 1967 and on March 4, 1968 at prices ranging from $2.15 to $1.37 per share. These prices were equal to the closing bid price on the Toronto Stock Exchange at the grant date. No options were exercised during 1967. These options are exercisable at various dates up to March 4, 1974.

   The Company is committed to grant additional options covering a total of 57,500 shares in two equal annual instalments on specified dates at prices equal to the closing bid price of the shares of the Company on the Toronto Stock Exchange on the date such additional options are granted.

7. Remuneration of Directors and Senior officers of Gunnar Mining Limited for the year totalled $125,000.

8. The 1966 comparative figures have been restated to conform with the 1967 presentation.

9. No provision for income tax has been reflected in the accounts due to the application of prior year losses.

## AUDITORS' REPORT

The Shareholders,
Gunnar Mining Limited.

We have examined the consolidated balance sheet of Gunnar Mining Limited and subsidiaries as at December 31, 1967 and the consolidated statements of income, deficit, and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of Gunnar Mining Limited and subsidiaries as at December 31, 1967 and the results of their operations and the source and application of working capital for the year then added, in accordance with generally accepted accounting principles applied, except for the change in depreciation policy referred to in note 3, on a basis consistent with that of the preceding year.

TOUCHE, ROSS, BAILEY & SMART,
Chartered Accountants.

Toronto, Ontario,
March 7, 1968.

Printed in Canada

tracts, namely those involved in the distribution of construction equipment, the manufacture of concrete products, etc., continue to operate at an increasing profitable level, and it is expected that certain corporate re-organization completed during the current year will enable their operations to be free of income tax for the next few years.

**Banking Consortium**

The original agreement entered into in September, 1965, provided banking and bonding support for construction operations until December 31, 1966. This consortium agreement has been extended on the same terms for a further two year period to December 31, 1968.

On Behalf of the Board,

T. P. O'Connor,
President.



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GUNNAR MINING
LIMITED

*Interim Report*

JANUARY 16, 1967

# GUNNAR MINING LIMITED

797 DON MILLS ROAD
DON MILLS, ONTARIO

January 16, 1967.

To the Shareholders:

A definitive report for the year 1966 will have to await completion of the annual audit, but preliminary figures indicate that the year will show a loss of $4,000,000 after full depreciation, full provision for all foreseeable future losses on existing construction contracts, and without allowing for any anticipated revenue from large claims which are outstanding. Management is optimistic that substantial recoveries will be made from the last mentioned source.

**Mining Exploration and Development**

Mining exploration continued through 1966 in most of the Provinces of Canada and in the southwestern part of the United States and in Europe. Our efforts have been rewarded to the extent of our 25% interest in the Icon Syndicate. This Syndicate plans to commence production from its Chibougamau property during the early summer of 1967. Preliminary calculations indicate a total net profit to the Syndicate by 1970 of approximately $5,000,000 based on present copper prices, estimated operating costs and ore reserves to date.

An exploration budget in approximately the same amount as expended in 1966 has been approved for 1967.

**Construction**

In the case of work in which the Company was already engaged at the end of 1965, there has been a further deterioration in three large contracts, all of which will be completed during 1967. At the present time the Company is projecting a deterioration in net revenue on the South Saskatchewan River Dam Project and additional provisions for losses to complete both the Oroville Project in California and the Sault Ste. Marie Lock in Michigan. Despite every effort to complete these projects within the 1965 year-end cost estimates, further substantial costs will be incurred before these projects are completed and provision for these is included in the estimated loss for 1966. Unexpected labour difficulties have been a significant factor and, in addition, changes have occurred in the conditions of the contracts. These changes give rise to claims which are in total substantially greater than the projected loss for the year.

New contracts taken on during 1966 totalled $27,000,000 of which approximately $15,600,000 was completed by the year end. Normal profit margins are being realized on this new work.

The total value of work carried over in 1967 amounts to $21,600,000.

Substantial economies have been applied on overhead expense. Sales of surplus equipment have amounted to approximately $4,000,000. Bank loans have been reduced to approximately $23,500,000 as compared to $27,000,000 a year ago.

Last May co. sed had come down to about 22M

**Other Companies**

The companies engaged in activities other than mining, construction and marine con-